

Message Text

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INFO OCT-01 EUR-12 NEA-11 ISO-00 SP-02 ICA-11 AID-05
EB-08 NSC-05 SS-15 STR-07 OMB-01 CEA-01 H-01
CIAE-00 COME-00 FRB-03 INR-10 NSAE-00 XMB-02
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INFO AMEMBASSY ATHENS
AMEMBASSY PARIS
AMEMBASSY BONN
AMEMBASSY LONDON
AMEMBASSY JIDDA
AMEMBASSY TEHRAN
AMEMBASSY KUWAIT

C O N F I D E N T I A L STATE 158624

FOR OECD AND EMBASSY

E.O. 11652: GDS

TAGS: TU,EFIN

SUBJECT: MEETING BETWEEN PRIME MINISTER ECEVIT AND
TREASURY SECRETARY BLUMENTHAL

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1. PRIME MINISTER ECEVIT MET WITH SECRETARY BLUMENTHAL
JUNE 5. ALSO ATTENDING ON THE TURKISH SIDE WERE FOREIGN
MINISTER OKCUN, DEFENSE MINISTER ISIK, TREASURY SECRETARY
GENERAL GUCSAVAS, AND AMBASSADOR ESENBEL. ATTENDING ON
THE U.S. SIDE WERE TREASURY UNDER SECRETARY SOLOMON,
AMBASSADOR SPIERS, TREASURY SPECIAL ASSISTANT FISHER AND
TREASURY TURKEY DESK OFFICER BLAKE.

2. THE PRIME MINISTER BEGAN BY GIVING AN OVERVIEW OF
TURKEY'S ECONOMIC SITUATION. HE STATED THAT TURKEY WAS

GOING THROUGH ONE OF THE WORST ECONOMIC CRISES IN ITS HISTORY AND THAT HE ASSUMED POWER AT THE PEAK OF THE CRISIS. HE ATTRIBUTED THE CRISIS TO A COMBINATION OF INTERNAL AND EXTERNAL FACTORS. ON THE INTERNAL SIDE, ECONOMIC MISMANAGEMENT PLAYED A MAJOR ROLE WHILE EXTERNAL FACTORS SUCH AS THE OIL PRICE INCREASES, WORLDWIDE INFLATION AND RECESSION AND THE "SIDE EFFECTS" OF THE ARMS EMBARGO ALSO HAD AN IMPORTANT IMPACT.

3. THE PRIME MINISTER WENT ON TO DESCRIBE HIS GOVERNMENT'S EFFORTS TO DEAL WITH THIS CRISIS BY INCREASING SAVINGS AND TRYING TO CHANNEL THEM TO MORE PRODUCTIVE SECTORS. HE SAW THESE EFFORTS AS BUILDING UP THE INTERNATIONAL COMMUNITY'S CONFIDENCE IN TURKEY AND NOTED THE IMPORTANT ROLE OF THE IMF AGREEMENT IN THIS RESPECT.

4. THE PRIME MINISTER DESCRIBED AT SOME LENGTH TURKEY'S ECONOMIC POTENTIAL, CITING SPECIFICALLY ITS INDUSTRIALIZED OUTLOOK, OPEN SOCIETY, "REASONABLE" NATURAL RESOURCE BASE AND TOURISM. HE SAID HIS GOVERNMENT WAS SEEKING TO EXPLOIT THESE POSSIBILITIES AS RAPIDLY AS POSSIBLE. THIS WOULD INVOLVE REORGANIZING THE ECONOMY TO ENCOURAGE EXPORTS AND TO ELIMINATE BOTTLENECKS.
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HE CRITICIZED PAST TURKISH GOVERNMENTS' EMPHASIS ON IMPORT-SUBSTITUTING INDUSTRIES, WHICH HE DESCRIBED AS BEING MANY CASES "IMPORT-PERPETUATING INDUSTRIES."

5. TURNING TO THE MEASURES HIS GOVERNMENT IS IMPLEMENTING, THE PRIME MINISTER CITED COMPREHENSIVE TAX REFORM, DISCUSSIONS WITH TURKEY'S LARGEST LABOR UNION ON A "SOCIAL CONTRACT," AND THE REACTIVATION OF THE OECD CONSORTIUM. THE PRIME MINISTER REMARKED THAT THE SIZABLE AMOUNT OF UNGUARANTEED SUPPLIERS' CREDIT ARREARAGES REMAINED A MAJOR PROBLEM AND THAT HE HOPED THAT THE OECD CONSORTIUM MEMBERS COULD BE HELPFUL IN THIS RESPECT, MENTIONING SPECIFICALLY THE ORGANIZATION OF A U.S. TREASURY-SUPPORTED "FINANCIAL FACILITY" TO DEAL WITH THIS PROBLEM.

6. THE PRIME MINISTER SAID THAT DISCUSSIONS WITH THE PRIVATE BANKS WERE CONTINUING AND THAT HE WAS OPTIMISTIC AS TO THE OUTCOME. HE DESCRIBED THE POSSIBLE 500 MILLION DOLS EUROCURRENCY LOAN AS THE "MINIMUM REQUIREMENT" TO RESTORE PRODUCTION AND HOPED THE TREASURY DEPARTMENT WOULD ENCOURAGE U.S. BANKS TO THIS END. THE TURKISH CENTRAL BANK, HE SAID, HAD APPROACHED THE BANK FOR INTERNATIONAL SETTLEMENTS FOR AN EXTENSION OF A FINANCING FACILITY AND THERE COULD BE A POTENTIAL ROLE FOR THE U.S. FEDERAL RESERVE BANK. HE REQUESTED TREASURY'S HELP IN REACTIVATION EXIM BANK ACTIVITIES IN

TURKEY. SUCH ACTION COULD HELP TO RELIEVE THE SHORT-RUN, FOREIGN EXCHANGE BOTTLENECK TURKEY PRESENTLY CONFRONTS.

7. SECRETARY BLUMENTHAL RESPONDED BY SAYING THAT THE U.S. WAS GRATIFIED THAT TURKEY HAD BEEN ABLE TO REACH AGREEMENT WITH THE IMF AND THAT WE SAW THIS AS THE KEY TO ALL OTHER FINANCIAL ASSISTANCE. HE THEN ASKED THE PRIME MINISTER HOW DIFFICULT IT WAS GOING TO BE TO MEET
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THE IMF TARGETS. PRIME MINISTER ECEVIT REPLIED THAT HIS GOVERNMENT WAS TRYING VERY HARD AND THAT IT HAD ALREADY SHOWN A GREAT DEAL OF ABILITY IN INCREASING SAVINGS AND "RECHANNELIZING" CREDITS. THE ESSENTIAL THING, AS HE SAW IT, WAS TO INCREASE TURKEY'S AVAILABLE FOREIGN EXCHANGE TO EASE THE IMPORT BOTTLENECK.

8. SECRETARY BLUMENTHAL NOTED THAT THE PRIME MINISTER HAD EVIDENTLY FOUND A GENERAL RECEPTIVENESS AMONG BANKERS IN NEW YORK TO ASSISTING TURKEY. UNDER SECRETARY GUCAVAS SAID THAT THE LEAD BANKS WOULD SHORTLY PRESENT A CONCRETE PROPOSAL TO THE TURKISH GOVERNMENT ON HOW TO PROCEED. UNDER SECRETARY SOLOMON ASKED WHETHER THERE HAD BEEN ANY NEW PLEDGES OF FUNDS FROM EUROPEAN GOVERNMENTS. THE PRIME MINISTER SAID THAT WEST GERMANY AND AUSTRIA HAD OFFERED SOME NEW MONEY AND THAT THE IBRD WAS CONSIDERING A PROGRAM LOAN FOR TURKEY.

9. SECRETARY BLUMENTHAL SAID THAT THE U.S. WOULD BE AS HELPFUL AS WE POSSIBLY COULD AND THAT THE IMF AGREEMENT, ALONG WITH ITS IMPLEMENTATION, WAS VERY IMPORTANT IN THAT IT MADE OTHER THINGS POSSIBLE. THE PRIME MINISTER SAID THAT TURKISH EXPORTS HAD BEEN UP IN APRIL AND MAY OF THIS YEAR AND WORKERS REMITTANCES WERE INCREASING. HE SAID THAT HIS GOVERNMENT WAS CONSIDERING NEW MEASURES TO ENCOURAGE INVESTMENT IN TURKEY BY WORKERS HOLDING FOREIGN EXCHANGE ABROAD. SECRETARY BLUMENTHAL NOTED THAT WITH THE MAJOR PORTION OF THE WORKERS REMITTANCES COMING FROM WEST GERMANY, AN ACCELERATION OF ECONOMIC ACTIVITY IN THAT COUNTRY WOULD PROBABLY HELP TURKEY AND THE PRIME MINISTER AGREED.

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10. UNDER SECRETARY SOLOMON ASKED ABOUT THE POLITICAL DIFFICULTY IN CARRYING OUT THE IMF PROGRAM. THE PRIME MINISTER REPLIED THAT PEOPLE WERE ALREADY FEELING THE EFFECTS OF RISING PRICES WHEN HIS GOVERNMENT TOOK

OVER AND REALIZED THAT INFLATION WAS NOT HIS GOVERNMENT'S FAULT. HE SAID THAT HE THOUGHT THAT THE PEOPLE WOULD ACCEPT THIS SITUATION FOR THE REST OF THE YEAR BUT THAT

;T THAT TIME IT WOULD BE NECESSARY TO GIVE THEM SOME SIGNS OF IMPROVEMENT. HE MENTIONED AGAIN THE MEASURES HIS GOVERNMENT WAS TAKING, WITH PARTICULAR STRESS ON RELIEVING OBSTACLES TO EXPORTS. HE NOTED THAT HIS GOVERNMENT HAS A "COMFORTABLE" MAJORITY AND THAT IT HAD A GOOD DIALOGUE WITH THE PEOPLE.

11. UNDER SECRETARY SOLOMON ASKED THE PRIME MINISTER ABOUT THE POLICIES HIS GOVERNMENT INTENDED TO PUT IN PLACE TO RESTRUCTURE THE ECONOMY OVER THE MEDIUM TO LONG TERM. THE PRIME MINISTER REPLIED THAT THE RESTRUCTURING WOULD BE DESIGNED TO DEVELOP EXPORT INDUSTRIES TO TAKE ADVANTAGE OF TURKEY'S GEOGRAPHIC LOCATION CLOSE TO THE MIDEAST MARKET. THE PRIVATE SECTOR COULD PLAY AN IMPORTANT ROLE AND THAT HIS GOVERNMENT HAD "NO COMPLEXES" ABOUT COOPERATING WITH FOREIGN PRIVATE BUSINESSES. SECRETARY BLUMENTHAL INQUIRED AS TO THE SPECIFIC TURKISH EXPORTS WHICH WERE LIKELY TO FIND A MARKET IN THE MIDDLE EAST. THE PRIME MINISTER REPLIED THAT THE STEEL AND SMELTING INDUSTRIES, THE CONSTRUCTION AND ELECTRONICS INDUSTRIES WERE LIKELY CANDIDATES. HE ALSO SAID THAT TURKEY COULD BENEFIT FROM COOPERATION IN THE PRODUCTION OF MILITARY EQUIPMENT.

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